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ABSTRACT

Insurance premiums being charged to borrowers under the Guaranteed Student Loan (GSL) program were studied to determine if the rate exceeded the rate necessary to protect the reserves of the insurer. Attention was directed to whether historical changes in the GSL program have affected insurance premiums. Guaranty agency's sources and uses of funds were also examined in an attempt to measure the need of insurance premiums. Finally, the amount of insurance premiums needed by guaranty agencies for their reserves in order to pay default claims was investigated. Findings include the following: the term "insurance premium" is misleading, since the large percentage of insurance premium funds are not used to pay default claims; the 1976 Higher Education Amendments decreased significantly the need to charge the maximum insurance premium rate to protect against defaults; and although the current reinsurance mechanism provides 100 percent reinsurance, guaranty agencies are still governed by lenders' and bondholders' perceptions to hold reserves in order to guarantee against the unlikely event of uncompensated defaults. Recommendations are offered regarding procedures and policies governing the financing of guaranty agencies. Appendices include information on guaranty agency sources and uses of funds. (SW)

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National Commission on Student Financial Assistance

STUDY OF THE INSURANCE PREMIUM CHARGED TO BORROWERS UNDER THE GUARANTEED STUDENT LOAN PROGRAM

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HE 016 217

Report No. 3

March 1983

NATIONAL COMMISSION ON STUDENT FINANCIAL ASSISTANCE

The National Commission on Student Financial Assistance was created by Public Law 96-374, the Education Amendments of 1980. During the congressional deliberations on those amendments, the Congress realized there was a general lack of reliable information and well-informed policy recommendations on many of the most fundamental and important federal student assistance policy issues in postsecondary education. The National Commission was established to correct this situation and to serve as a reliable policy agent for the President and the Congress.

Established in 1981, the National Commission is a bipartisan panel of members of Congress, leaders in the higher education community and representatives of the public. The panel is composed of twelve members, four appointed by the President of the United States, four by the House of Representatives and four by the United States Senate.

The final report of the National Commission is due on July 1, 1983.

COMMISSIONERS

Appointed by the President

David R. Jones, Chairman
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Marilyn D. Liddicoat
Kenneth R. Reeher

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The Honorable Claiborne Pell	The Honorable John Erlenborn*
The Honorable Robert Stafford	The Honorable William Ford
David P. Gardner	John Brademas
David M. Irwin	Kenneth G. Ryder

*Replaced the Honorable Wendell Bailey on February 24, 1983.

FOREWORD

During the reauthorization of the 1980 Higher Education Amendments, the House and Senate Higher Education Authorizing Committees attempted to make legislative changes regarding the insurance premium charged to borrowers under the Guaranteed Student Loan program. During their discussion, it became clear that any proposal in this area would affect guaranty agencies differently, and any structural changes would have to be sensitive to each agency's circumstances.

In order to examine this issue in a more detailed manner than would have been possible during the reauthorization of the Higher Education Amendments, the authorizing committees instructed the National Commission on Student Financial Assistance (Public Law 96-374, sec. 491) to make a study of the insurance premiums being charged to determine if the rate charged exceeded the rate necessary to protect the reserves of the insurer, and to determine if statutory limits should be imposed on the premium rate.

To accomplish this task, the Commission established an insurance premium subcommittee. The subcommittee consisted of the following Commission members: Congressman Wendell D. Bailey (Chairman), Mrs. Marilyn D. Liddicoat (an attorney), and Mr. Kenneth G. Ryder (President, Northeastern University).

As part of the subcommittee's examination of the insurance premium, hearings were held across the country. The first two hearings were held on September 24, 1982 in Jefferson City, Missouri, and Warrensburg, Missouri. A third hearing was held on October 29, 1982 in San Francisco, California, and the final subcommittee hearing was held on December 7, 1982 in Boston, Massachusetts.

From its first meeting, the subcommittee focused on the central issue of this study: Is the insurance premium rate, in fact, a problem.

The subcommittee, in answering this question, recognized that legislative changes had occurred in the Guaranteed Student Loan program since its inception that added greater incentives for further state involvement, while the appropriateness of the insurance premium had been virtually ignored in the legislative and regulatory processes.

In other words, as the role of the states increased through greater incentives by the federal government, had the amount charged the borrower in some states exceeded the amount necessary to protect reserves? No studies or analyses had ever been conducted to determine if this was so. The appropriate level of insurance premiums was a matter that could only be addressed once the above questions had been answered.

The Commission contracted the services of Touche-Ross & Company for technical assistance, which was supplied by Joe Kraemer II and Veronica Radcliffe.

The Commission is most grateful for the continued cooperation and assistance of the staff of the Guaranteed Student Loan branch of the Department of Education.

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EXECUTIVE SUMMARY

BACKGROUND

Under the Guaranteed Student Loan (GSL) program, created by the federal government to help students finance their postsecondary education, an insurance premium fee is usually charged to borrowers by guaranty agencies in case the students default. However, since guaranty agencies are reinsured by the federal government for most loan losses, insurance premium income is used primarily for agencies' operating expenses, to ease their cash flow, and to increase their reserves against potential future losses.

The rate charged for the insurance premium ranges from .5 to 1 percent per annum. Two states currently do not charge an insurance premium. Six agencies charge one-half of 1 percent. Three agencies charge three-fourths of 1 percent. The remaining 40 agencies charge the statutory maximum of 1 percent. The period upon which the premium is charged ranges from the in-school plus grace period to the life of the loan. For example, a freshman may be charged 1 percent x 4 years + 1 year grace period for a total insurance premium of 5 percent of the amount borrowed. In fiscal year 1981, insurance premiums represented $99.5 million or 22 percent of guaranty agencies' total source of funds.

Whether guaranty agencies are charging an excessive rate on insurance premiums became part of the Commission's mandate during the reauthorization of the 1980 Higher Education Amendments after House and Senate Higher Education Authorizing Committees realized that further examination of this issue was needed before legislative changes could be made.

In order to comply with its congressional mandate, the Commission made a thorough historical study of the Guaranteed Student Loan program to see if changes in the program have affected insurance premiums. An examination of guaranty agency's sources and uses of funds was also made in an attempt to measure the need of insurance premiums. And, finally, an examination was made to determine the amount of insurance premiums needed by guaranty agencies for their reserves in order to pay default claims. An impact analysis of the Commission's recommended changes are presented in the appendix.

FINDINGS

The Insurance Premium Subcommittee, based on its research, has concluded, in general, that:

- The term "insurance premium" is misleading, since the large percentage of insurance premium funds are not used to pay default claims.

- With the passage of the 1976 Higher Education Amendments, the need to charge the maximum insurance premium rate to protect against defaults decreased significantly.

- Despite the current reinsurance mechanism, which in effect provides 100 percent reinsurance, guaranty agencies are still governed by lenders' and bondholders' perceptions to hold reserves in order to guarantee against the unlikely event of uncompensated defaults.

Many views were expressed at subcommittee hearings which assisted the Commission in making its final recommendations. Principally, these views concerned:

- Guaranty agencies' need for incentives to keep default rates down.

- Reducing guaranty agencies' reserve funds without eliminating risk.

- Erratic changes to the premium rate.

- Guaranty agencies' need for timeliness and certainty in receiving federal payments.

- Guaranty agencies' need for security and stability.

- The need for sensitivity considering the effect of any changes in guarantee agency financing.

RECOMMENDATION*

The National Commission on Student Financial Assistance makes the following recommendation on procedures and policies governing the financing of guaranty agencies:

- CHANGE NAME OF "INSURANCE PREMIUM" TO "SERVICE FEE."

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*See "IV: RECOMMENDATION" for full text and discussion.

- CHANGE CURRENT REINSURANCE FORMULA TO 100 PERCENT REINSURANCE AND REQUIRE THE FEDERAL GOVERNMENT TO PAY ALL CLAIMS WITHOUT EXCEPTION WITHIN 60 DAYS, SUBJECT TO SUBSEQUENT POSTAUDIT VERIFICATION.

- THE ADMINISTRATIVE COST ALLOWANCE WILL CONTINUE TO REFLECT A PERCENTAGE OF LOANS GUARANTEED, AS UNDER CURRENT LAW OR AT EACH AGENCY'S OPTION, AT .25 OF 1 PERCENT OF LOANS OUTSTANDING.

- ALLOW GUARANTY AGENCIES TO RETAIN ANY OR ALL OF THE COLLECTIONS DUE THE FEDERAL GOVERNMENT ON DEFAULTED LOAN COLLECTIONS AS AN OFFSET AGAINST ADMINISTRATIVE COST ALLOWANCE PAYMENTS MADE OR DUE IN THE PREVIOUS FISCAL YEAR.

- TO ASSURE THAT GUARANTY AGENCIES MAINTAIN THEIR CURRENT LEVELS OF EFFECTIVENESS IN AVOIDING BORROWER DEFAULTS UNDER THE PROPOSED CONDITION OF 100 PERCENT REINSURANCE, THE SECRETARY OF EDUCATION, IN COOPERATION WITH THE NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAM, SHOULD DEVELOP MINIMUM STANDARDS FOR DUE DILIGENCE.

- ESTABLISH AN ADEQUATE WORKING CAPITAL FUND FOR THE PAYMENT OF AGENCY DEFAULTS AND ADMINISTRATIVE EXPENSES.

The Working Capital Fund formula will determine the amount of the Service Fee an agency may charge NOT whether any fee at all could be charged. Reducing, rather than eliminating, the collection of such fees would avoid the confusion resulting from stopping and starting the various systems associated with this function (see Appendix A, "Impact Analysis").

- CHANGE THE CURRENT FEE OF 1 PERCENT OF THE LOAN VALUE FOR EACH YEAR THAT THE LOAN IS EXTENDED TO A MAXIMUM OF ONE-HALF OF ONE PERCENT OF THE LOAN VALUE FOR THE BORROWERS IN-SCHOOL AND GRACE PERIODS PER LOAN WHEN AN AGENCY'S RESERVES EXCEED THE WORKING CAPITAL FUND.

The Commission suggests that the Department of Education review the rate three to five years following the passage of this recommendation.

- A GUARANTY AGENCY MUST RETURN FEDERAL RESERVE AND ADVANCE MONIES TO THE FEDERAL GOVERNMENT WHEN THE AGENCY HAS A SUFFICIENT AMOUNT OF RESERVES, AS DETERMINED BY THE WORKING CAPITAL FUND.

All monies returned are to be used for other student aid programs.

- A NEW AGENCY WILL NOT BE SUBJECT TO ANY OF THE ABOVE CHANGES DURING ITS FIRST FIVE YEARS OF OPERATION, UNLESS IT SO CHOOSES.

Any state having a legislative or contractual prohibition involving reduction of its reserve funds, will have a two-year exemption following the passage of any federal legislation which would reduce reserves.

The Commission believes that this recommendation will result in major benefits. The recommendation recognizes the importance of the guaranty agencies as the proper vehicle to administer the GSL program. Also, the Commission wishes to stress that the parts of this recommendation are interrelated, and must be considered as a package. The parts of the recommendation build on one another, and cannot be adopted separately.

The Commission adopts this study with the understanding that the program modifications presented in this recommendation represent one--but not the only--legitimate approach to resolving some issues addressed by the Commission. An alternative approach, which clearly has merit, would be to modify federal reinsurance in such a manner as to place greater financial responsibility for loan defaults on existing state and private loan guaranty programs. This would result in better utilization of reserve funds of these organizations and would shift some of the cost of defaults from the federal government to the state and private guaranty programs. Reducing the cost to the federal government for defaults would facilitate opportunity for reducing other charges to the student, in order to reduce total borrowing cost to the student. The Commission urges Congress to give full consideration to such an alternative in considering the approach contained in this study.

I. BACKGROUND

The Guaranteed Student Loan (GSL) program is a federal program that assists students in securing loans to help finance their postsecondary education. Under this program, students do not receive loans directly from the federal government, but from a variety of lenders all of whom rely on a federal government guarantee against defaults.

The vast majority of GSLs are guaranteed by the agencies that administer the program. A guaranty agency is a state or private nonprofit entity that administers the student loan insurance program in a state. Guaranty agencies serve as the middlemen in the process of locating capital to finance Guaranteed Student Loans. Currently, there is a guaranty agency in all but one state, where the federal government serves as the guarantor. The agencies are then reinsured, in varying amounts, by the federal government for loans made under the agencies' auspices.

SOURCES OF FUNDS

Most guaranty agencies have three sources of funds: the federal government, state appropriations and student borrowers. The roles played by the federal government and the borrowers are the focus of this study.

The revenue generated for the guaranty agencies by the borrower is known as the insurance premium. In theory, the insurance premium is a payment to the guarantor for providing insurance against potential losses the lender may suffer if the borrower defaults on his or her loan. In actual practice, however, a guarantor is reinsured by the federal government for most loan losses, and insurance premium income is used primarily for operating expenses, to maintain the cash flow or to increase reserves against potential future losses.

Currently, the maximum insurance premium rate is set by regulation. From 1966 to 1975, guaranty agencies were able to charge up to one-half of 1 percent.[1] Since 1975, agencies have been allowed to charge students up to 1 percent of the

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[1]U.S. Department of Education, Guaranteed Student Loan Branch, interview with James Lubell, Program Analyst, February 17, 1983.

loan value for each year that the loan is extended.[2] The rate actually charged ranges from one-half of 1 percent to a maximum of 1 percent. Most agencies currently charge only for each year a student will be either in school or in the 6-to-9-month grace period following departure from school. For example, a freshman may be charged 1 percent x 4 years + the grace period* for a total of 5 percent of the amount borrowed. For loans made under the Federally Insured Student Loans (FISL) program, the insurance premium is equal to one-quarter of 1 percent until repayment.[3]

ORIGIN OF THE INSURANCE PREMIUM

One of the objectives of the Higher Education Act of 1965 was to encourage the establishment of state and private nonprofit loan insurance programs. To accomplish this, the federal government provided approximately $24 million in seed money to help establish or strengthen an agency's reserves against potential losses from loan defaults.[4] In addition, regulations of the 1965 Act provided for an insurance premium to cover both defaults and administrative costs.[5] Generally, participating agencies kept one dollar in reserve for every ten dollars of loans outstanding to protect against defaults.

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*Some guaranty agencies calculate the insurance premium charge on the basis of a one-year grace period (see Appendix D, "Student Insurance Premium--Guarantee Agency Program").

[2]Ibid.

[3]National Commission on Student Financial Assistance, "Guaranteed Student Loans: A Background Paper," March 1982, p. 6. The Federally Insured Student Loan (FISL) program provides insurance to lenders who are not adequately served by a guaranty agency. Under FISL, loan capital is made available for students under the same rules as the GSL program in areas not served by a guaranty agency, or for lending directly through academic institutions. FISL insured only 5 percent of all guaranteed loans issued in fiscal year 1981. The percentage of FISL loans vis-a-vis agency-guaranteed loans has been steadily decreasing as states established guaranty agencies under a program of federal incentives.

[4]U.S. Department of Education, "Guaranteed Student Loan Program (GSLP) Advance Funds--By State," (Washington, D.C.: GSL Branch, March 23, 1982), p. 19.

[5]Federal Register, Vol. 31, No. 77, April 21, 1966, p. 6112.

The responsibility to meet default obligations made it necessary for agencies to have strong reserve funds to cover loan losses while providing cash flow for their expenses, and to meet bond-rating requirements. These reserves were primarily accumulated by charging the borrower an insurance premium.

The passage of the 1968 Higher Education Amendments and the implementation of an 80/20 shared insurance responsibility increased the federal reinsurance role. With the federal government now offering to cover 80 percent of default losses, the guaranty agencies needed to keep only 20 cents of each dollar they had formerly kept in reserves without in any way impairing their ability to meet their default obligations.

EFFECT OF 1976 HIGHER EDUCATION AMENDMENTS ON INSURANCE PREMIUM RATES

With the passage of the 1976 Higher Education Amendments the need to charge the maximum insurance premium rate to pay defaults decreased even further as federal reinsurance limits were raised. These new reinsurance levels were contingent on a default trigger mechanism.

The 1976 Amendments guaranteed the agencies 100 percent reinsurance if the agencies met certain conditions. The reinsurance would be reduced to 90 percent or 80 percent for the remainder of any fiscal year when reimbursement payments by the Secretary of Education exceeded 5 percent or 9 percent, respectively, of the loans which were in repayment at the end of the preceding fiscal year. In the succeeding fiscal year reinsurance would resume at 100 percent unless the 5 percent or 9 percent trigger is again reached.[6] Although these new reinsurance rates had the effect of reducing current reserve needs, there remained an element of uncertainty associated with future default rates. Thus, the Agencies decided to maintain reserves at a level that would meet their needs should their default rates rise and exclude them from the higher reinsurance. However, since 1976, the trigger has rarely been hit.

In addition to the reinsurance change, the 1976 Amendments provided three new incentives:[7]

- Agencies were provided with an Administrative Cost Allowance (ACA) in proportion to the volume of loans guaranteed to support their administrative activities.

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[6]U.S. Congress, House, 1976 Higher Education Amendments, Conference Report, 94th Cong., 2d sess. 1976, p. 37.

[7]Ibid., pp. 20-21, 41.

- Additional federal advances totaling approximately $65 million were provided to each guaranty agency to increase reserves against claim payments.

- Guaranty agencies were compensated for the cost of collections on defaulted loans.

The federal effort to encourage state and nonprofit agencies has been very successful. Prior to enactment of the Higher Education Act of 1965 only 17 states had independent agencies guaranteeing student loans. Currently, 49 states, the District of Columbia and one territory have agencies.[8] As of September 30, 1981, their reserves totaled over $476 million.[9]

Because of this substantial amount of reserves and the federal government's assumption of increased responsibility against defaults, the size of the insurance premium is being questioned. However, no legislative or regulatory changes have been made since 1975. The issue is complicated because there often is a delay in the Department of Education's ACA payments to the agencies, making it necessary for the agencies to use their insurance premiums for cash flow purposes. In addition, the occasional delays in payment for reinsurance claims cause other cash-flow problems for agencies.

The Commission, believing it would not be appropriate to consider insurance premiums in a vacuum, expanded the scope of the study under its legislative charge by examining the sources and uses of guaranty agency funds. Much of the data necessary to complete an accurate analysis of the issue had been collected by the Department of Education and was made available by the Department for this study.

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[8]U.S. Department of Education, Office of the Inspector General, Office of Audit, "Guaranty Agencies' Reserves: Federal Advances No Longer Needed," ACN: 11-23030 (Washington, D.C., 1982), p. 4.

[9]U.S. Department of Education, "Guarantee Agency Sources of Funds," GSL Branch, unpublished data, March 30, 1982, p. 3.

II. EXAMINATION OF GUARANTY AGENCY SOURCES OF FUNDS AND EXPENDITURES*

SOURCES OF FUNDS

Insurance Premiums

Most guaranty agencies collect an insurance premium from their participating lenders on each new loan disbursement. It is usually a one-time charge per disbursement with no subsequent adjustments. Lenders usually pass on the insurance premium to the student. Although the insurance premium may be charged to the student separately from the loan proceeds, most lenders charge the borrower by deducting the premium amount from the proceeds of each disbursement.

The rate charged for the insurance premium ranges from one-half of 1 percent to 1 percent per annum. Two states currently do not charge an insurance premium. Six agencies currently charge one-half of 1 percent. Three agencies charge three-fourths of 1 percent. The remaining 40 agencies charge the statutory maximum of 1 percent. The period upon which the premium is charged ranges from the time spent in school plus grace period to the life of the loan. Two agencies do not charge insurance premiums. For fiscal year 1981, the weighted average rate of the insurance premium charged was slightly more than three-fourths of 1 percent per annum over a weighted average period of 35 months.

On an aggregate basis in fiscal year 1980, insurance premiums represented approximately $56 million or 20.3 percent of the agencies' total source of funds. In fiscal year 1981, they represented approximately $95.5 million or about 22 percent of the agencies' total source of funds.

The increased percentage is largely a function of greatly increased guaranty agency loan volume, as the agencies have not yet experienced the increased costs and reimbursements associated with these loans as they convert to repayment (and therefore possible default) status. Over time, as these new

*All information in this chapter, unless otherwise cited, is based on the U.S. Department of Education's state-by-state breakdown of guaranty agencies' sources of funds and their uses, developed by the GSL Branch, unpublished data, March 30, 1982 (see Appendixes B, "Guarantee Agency Sources of Funds" and C, "Guarantee Agency Uses of Funds").

loans enter repayment status, the insurance premium will decrease while the reinsurance payments will increase.

State Appropriations

Some guaranty agencies have state appropriations authorized periodically by their state legislatures. In fiscal year 1981, 14 agencies had such appropriations.

Overall, only about 2 percent of all agencies' funds were derived from state appropriations in fiscal years 1980 and 1981, when agencies received approximately $5 million and $17 million, respectively.

Federal Advances

Federal fund advances to guaranty agencies were authorized in 1965 and 1968 to establish and strengthen guaranty agency reserve funds against losses. Over the years, approximately $23 million has been disbursed to agencies under the 1965 and 1968 advance payment authorization. In 1976, further advances were authorized for payment of default claims. Approximately $69 million has been paid in 1976 advances. The advance funds authorized in 1965 and 1968 are subject to recall by the Secretary of Education to be returned to the Treasury if the Secretary finds that, in light of the maturity and solvency of an agency's reserves, the guaranty agency no longer needs the funds advanced to maintain an adequate reserve position.

Some agencies have voluntarily made partial repayments of their 1965 and 1968 advances, amounting to approximately $2 million. The monies authorized in 1976 are repayable to the Department of Education when the total dollar amount advanced exceeds 20 percent of an agency's outstanding insurance obligation. Twenty-three agencies received advances in fiscal year 1980 totaling $5.9 million, with 19 agencies receiving $5.9 million in fiscal year 1981. In all, only about 2 percent of guaranty-agency funding was derived from loan advances to their reserve funds in fiscal years 1980 and 1981. The Department of Education's analysis of the overall status of agency reserve funds indicates that federal advance payments made over the years represent approximately 20 percent of the total funds now in reserve.

In July 1982, the Inspector General reported "that many agencies have sufficiently built-up their reserves so that there is not a valid need for them to retain their federal advances."[10]

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[10]U.S. Department of Education, "Guaranty Agencies' Reserves," p. 10.

Federal Reinsurance Payments Received

From 1968 until 1976, federal reinsurance was provided for loans guaranteed by the agencies, whereby the Secretary of Education would reimburse 80 percent of the principal amount of losses incurred by the agencies. Since 1976, subject to provisions of that year's Education Amendments, most agencies have qualified for 100 percent reinsurance. As noted earlier, the reinsurance would be reduced to 90 percent or 80 percent for the remainder of the fiscal year when reimbursement payments by the Secretary exceed 5 percent or 9 percent, respectively, of the loans which were in repayment at the end of the preceding fiscal year. In the succeeding fiscal year reinsurance would resume at 100 percent unless the 5 percent or 9 percent trigger was again reached.

From data available for the past five fiscal years, no agency has hit the 9 percent trigger.[11] The 5 percent trigger was reached by three guaranty agencies in fiscal year 1978, one in fiscal year 1979, two in fiscal year 1980, two in fiscal year 1981, and two in fiscal year 1982.[12] In fiscal years 1980 and 1981 the agencies hit the trigger in August.[13] The nonreinsured portion, or the cost to the two agencies, was $1,179 and $33,051 in fiscal year 1980; $32,680 and $617,238 in fiscal year 1981; and $187,280 and $198,919 in fiscal year 1982.[14] The reinsured portion, or the cost to the federal government, was approximately $110,000,000 in fiscal year 1980; $166,342,639 in fiscal year 1981; and $214,263,332 in fiscal year 1982. As a percentage of reinsurance costs to the agencies, guaranty agencies paid .03 percent in fiscal year 1980; .39 percent in fiscal year 1981; and .18 percent in 1982. Since 1977 the federal government has made reimbursements of approximately $868 million.[15]

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[11]Ibid.

[12]Ibid.

[13]Ibid.

[14]Touche Ross & Company, Reinsurance calculation notes, February 5, 1983, National Commission on Student Financial Assistance files.

[15]U.S. Department of Education, Guaranteed Student Loan Branch, interview with Howard Gholson, Program Analyst, January 20, 1983.

In addition, in order to qualify initially for 100 percent reinsurance, agencies must be willing to guarantee loans to out-of-state students. Currently, only two agencies, Louisiana and Oklahoma, have opted for less than 100 percent reinsurance because they wish to impose restrictions on the amounts out-of-state students can borrow.
Agencies established since 1976 were given five years before their 100 percent reimbursement would be subject to the trigger mechanism.[16]

In fiscal year 1981, reinsurance payments were received by 44 agencies. The remaining five agencies had not been operational long enough to have had default claims.[17]

In total, reinsurance payments in fiscal year 1980 yielded 49 percent or $135 million of all funds received by the agencies. In fiscal year 1981, this percentage was approximately 46 percent or $194 million.

Administrative Cost Allowances

Both the primary and secondary administrative cost allowances (ACAs) provide funds to guaranty agencies at the rate of one-half of 1 percent of the principal amount of loans guaranteed during the fiscal year for the primary ACA, and an additional one-half of 1 percent for the secondary ACA.

All agencies are currently receiving the primary ACA. The only requirement for qualification for the primary ACA is that there are enough expenses (lender promotion, administrative cost of collections and preclaim assistance, and other related administrative costs) to warrant it. Currently, all but eight agencies receive the secondary ACA. In addition to the same requirements for qualification for 100 percent reinsurance, the major criterion for receipt of this payment is an agency's willingness to guarantee loans to nonresident students.

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[16]U.S. Congress, House, 1976 Higher Education Amendments, Conference Report, p. 38.

[17]The United Student Aid Fund (USAF) is currently serving as a guarantor in states that do not have a guaranty agency. USAF has received approximately $24 million in federal reinsurance payments. USAF also provides servicing and administrative support for a number of guaranty agencies. In fiscal year 1980, the ACAs accounted for 8 percent or $22 million of total receipts. In fiscal year 1981, this figure increased to 9 percent or $37 million. National Commission on Student Financial Assistance, "Guaranteed Student Loans: A Background Paper," p. 31.

Collections on Claims Paid

Once a reinsurance claim is paid by the Department of Education, subject to the exercise of "due diligence" on the part of the lender to collect monies due, an agency subsequently attempts to collect from the borrower. An agency may retain up to 30 percent of the amount collected to cover the administrative costs of collections and preclaims assistance. Only those costs that have not been reimbursed under the ACAs may be retained. In addition, those agencies that receive less than 100 percent federal reinsurance may retain the "uninsured" portion when collections are made from defaulted borrowers. Thus, in the case of those agencies that receive only 80 percent federal reinsurance, the 20 percent of collections not covered under the reinsurance agreement may be retained under these conditions in addition to the 30 percent mentioned above.

Retentions from collections are particularly advantageous to the agencies because the funds are withheld by the agency itself and, therefore, are not dependent upon the federal appropriation process. As would be expected, many of the agencies established in recent years had little or no income from collections. In all guaranty agencies, about 10 percent or $29 million of all receipts were derived from collections in fiscal year 1980. In fiscal year 1981, the comparable figures were 8 percent or $37 million.

Investment Earnings

Investment income on revenue funds, which may also be used to pay operating costs, was realized by all except four new agencies in fiscal year 1981. Understandably these four agencies would not have such income. In the case of state agencies, investments are generally administered by the Office of the State Treasurer and, therefore, are usually limited to government securities traditionally offering yields that are less than those available for other investment vehicles. Program regulations require that an agency invest its reserve fund only in low-risk securities rather than in speculative ventures.

Less than 8 percent or $20 million of all funds received by agencies were derived from investment earnings in fiscal year 1980. In fiscal year 1981 this figure rose to slightly less than 9 percent or $37 million.

Higher than "normal" yields on government securities was a major factor in this increase. In addition, most of the new agencies that reported no earnings in fiscal year 1980 showed some earnings for fiscal year 1981.

Other Nonfederal Sources

A few agencies realize revenue from sources not mentioned above. Occasionally, an agency may take out a state loan. In rare instances, corporations make contributions or other gifts to an agency.

In all guaranty agencies, less than 1 percent of funding came from these other sources in both fiscal year 1980 ($1.5 million) and fiscal year 1981 ($1.1 million).

Summary

All of the sources of funds mentioned above generated receipts to the agencies of more than $276 million in fiscal year 1980, and of approximately $426 million in fiscal year 1981 (see Figure 1 for breakdown of 1981 amounts).

GUARANTY AGENCY EXPENDITURES*

Total Claims Paid

The guaranty agencies, under the provisions of their insurance agreements with their participating lenders, must fully reimburse lenders for principal and interest on those loans which the borrowers failed to repay due to default, bankruptcy, death, or permanent and total disability. Lenders are fully reimbursed even in those agencies (Louisiana and Oklahoma) which are reimbursed at less than 100 percent by the Department of Education. This reimbursement must be made, however, only in cases where the lender has exercised due diligence in the making, servicing and collecting of loans.

In all, $144 million in 1980 was spent on claims and $184 million in 1981.

Operating Expenses

All expenses incurred by a guaranty agency, such as personnel salaries, travel costs, insurance costs, fringe benefits costs, computer systems hardware and software costs, equipment costs, rent, consultant fees, servicer fees, collection costs, litigation costs, and costs of supplies are considered operating costs. For several agencies, these costs include the expenses associated with interest and special billing services for their participating lenders.

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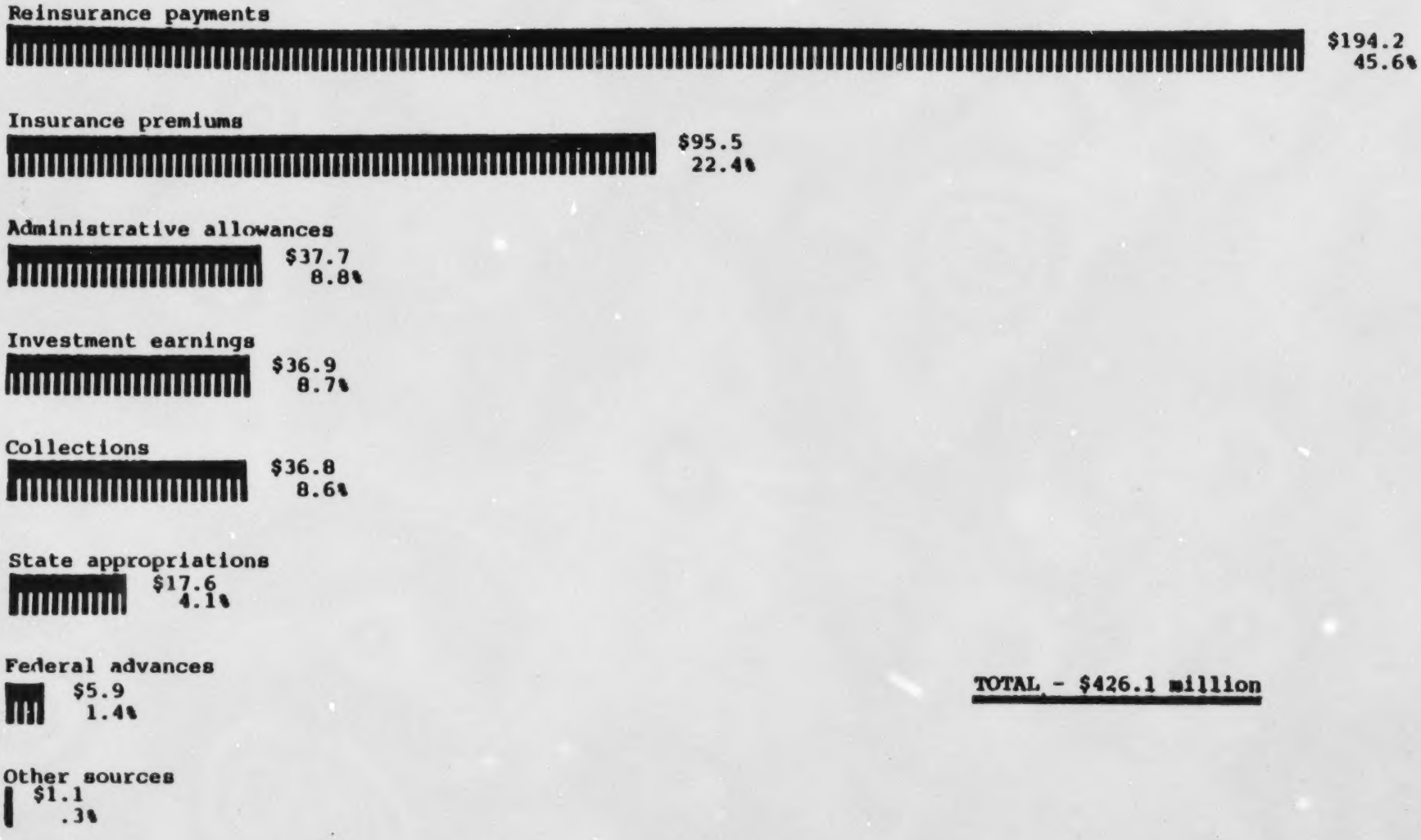
*See Appendix C, "Guarantee Agency Uses of Funds," for a state-by-state breakdown of expenditures.

FIGURE 1

GUARANTY AGENCIES' SOURCES OF INCOME, FISCAL YEAR 1981

(in millions of dollars and percent of total sources)



TOTAL - $426.1 million

SOURCE: U.S. Department of Education, Guaranty Student Loan Branch, "Guaranty Agency Sources of Funds," March 30, 1982, unpublished data.

Since guaranty agencies do not report operating expenses by a complete categorical breakdown, and since efficiency is a complex phenomenon not easily quantified, it is difficult to make judgments about the cost efficiency of the guaranty agencies. Operating expenses for all agencies in fiscal year 1980 as a percent of total expenditures was 20 percent or $43 million. In fiscal year 1981 the percentage increased to 25 percent or $70 million.

Lender Fees

Lender fees are payments made to the lender by its guaranty agency as an incentive for the lenders to make student loans and to attract more lenders into the Guaranteed Student Loan program. The fees paid these lenders help to offset such costs as paperwork in the handling of student loans. However, the agencies that pay these fees do not stipulate how the lenders must use the fees paid to them. At the present time, there are only three agencies that pay lender fees: Georgia, Pennsylvania and Maryland.

Georgia pays a one-time-only fee of three-fourths of 1 percent of the loan principal at the time the loan is made. In 1981, this amounted to approximately $559,000.

Pennsylvania started its program in 1968 with a lender fee of one-half of 1 percent of the loan principal. In 1971, the fee was reduced to one-fourth of 1 percent. This fee is paid when a loan is disbursed. In 1981, this amounted to approximately $3.2 million.

Maryland started its lender fee program about 12 years ago. The lender is entitled to a lender fee of $40 when the loan is made and another $40 when the loan is converted into repayment status. In 1981, this amounted to approximately $1.3 million.

Portion of Collections Remitted to the Department of Education

If the guaranty agency collects on a defaulted student loan for which it has already been reimbursed by the Department of Education, it must return that portion of the amount of reinsurance percentage paid by the Department, minus up to 30 percent that it may retain as its costs for its collection efforts. Each month the guaranty agency submits a "Report of Recovery of Claims Paid" to the Department of Education with a check for payment. A guaranty agency must maintain an audit trail of its collection of expenses to support the amount it retains.

Even if the collection costs exceed the 30 percent deduction, a guaranty agency does not lose money because of collections. If an agency's cost of collection exceeds the 30 percent maximum, it is allowed to use a portion of the ACA to cover this expense. Most agencies have collection costs that exceed the 30 percent deduction from collections.

In all guaranty agencies, in fiscal year 1980, the percentage of collections remitted as a percentage of total uses of funds was approximately 10 percent or $21 million. In fiscal year 1981, the portion of collections remitted to the Department of Education was approximately 22 percent or $29 million.

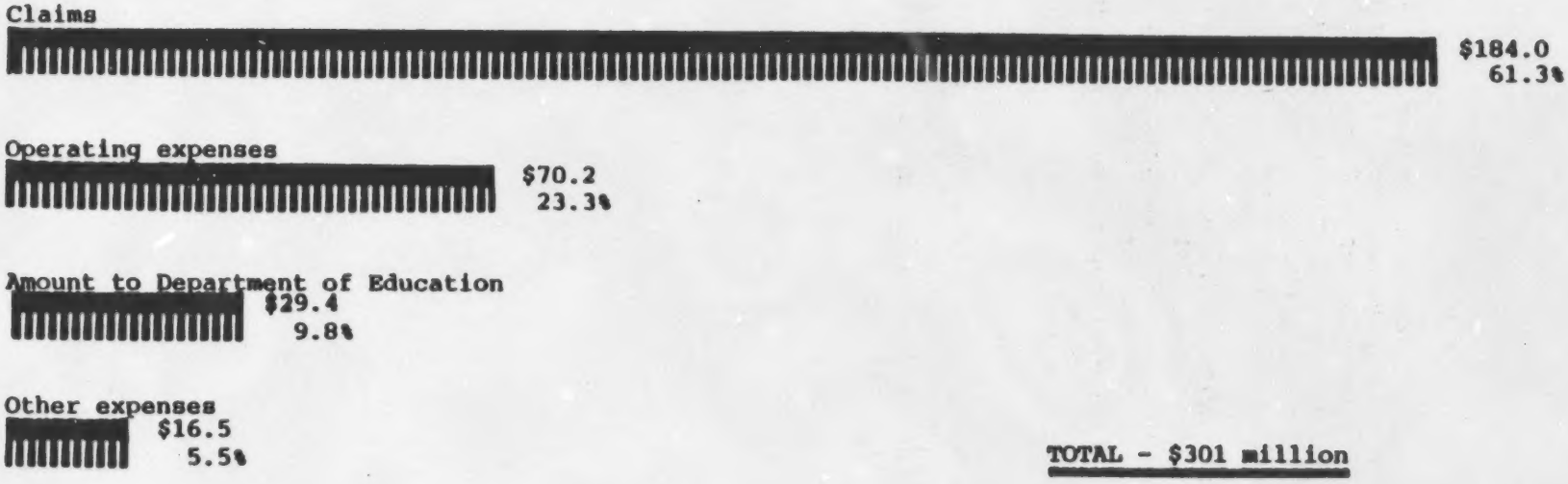
Summary

All of the above expenditures made by the guaranty agencies totaled approximately $218 million in fiscal year 1980, and approximately $301 million in fiscal year 1981 (see Figure 2 for 1981 amounts).

FIGURE 2

GUARANTY AGENCIES EXPENDITURES, FISCAL YEAR 1981

(in millions of dollars and percent of total expenditures)



TOTAL - $301 million

SOURCE: U.S. Department of Education, Guaranty Student Loan Branch, "Guaranty Agency Uses of Funds, March 30, 1982, unpublished data.

III. FINDINGS

SUBCOMMITTEE RESEARCH

- As the legislative changes occurred in the Guaranteed Student Loan program that enhanced guaranty agency incentives, such as, federal advances, administrative cost allowances, and a restructuring of the reinsurance formula, the federal government has not examined the appropriateness of the insurance premium or whether corresponding changes should be made.

- The term "insurance premium" is misleading, since the large percentage of insurance premium funds are not used to pay default claims. In theory, an insurance premium is a payment to a guarantor for providing insurance against potential losses the lender may suffer if the borrower defaults on a loan. In actual practice, a guarantor in the Guaranteed Student Loan program is reinsured by the federal government for most loan losses and insurance premium income is used primarily for operating expenses, cash flow, and to increase reserves against potential future losses.

- With the passage of the 1976 Higher Education Amendments, the need to change the maximum insurance premium rate to protect against defaults decreased significantly. Those Amendments provided 100 percent federal reinsurance through a trigger mechanism. The new reinsurance rates effectively reinsured all guaranty agencies 100 percent. For instance, in 1982, guaranty agencies paid approximately $214 million to lenders for defaults. In turn, the federal government reimbursed the guaranty agencies approximately $213.6 million, close to 100 percent of the total. Guaranty agencies were responsible for slightly less than $400,000, though agencies collected approximately $95.5 million in insurance premiums. Currently, guaranty agencies have reserves which total approximately $476 million.

- Despite the current reinsurance mechanism which effectively provides 100 percent reinsurance, guarantee agencies are still governed by lenders' and bondholders' perceptions to hold reserves in order to guarantee against the unlikely event of uncompensated defaults.

SUBCOMMITTEE HEARINGS

Many views were expressed at subcommittee hearings which assisted the Commission in making its final recommendations. Principally, these views concerned:

- Guaranty agencies' need for incentives to keep default rates down.

- Reducing guaranty agencies' reserve funds without eliminating risk, which could result in the serious reduction of capital investment in this program.

- Erratic changes to the premium rate, which are not conducive to public understanding and acceptance of the program.

- Guaranty agencies' need for timeliness and certainty in receiving federal payments.

- Guaranty agencies' need for security and stability.

- Any changes in guarantee agency financing must be sensitive to individual agencies.

IV. RECOMMENDATION

The National Commission on Student Financial Assistance recommends that the procedures and policies governing the financing of guaranty agencies should be modified to conform to the following provisions:

- CHANGE NAME "INSURANCE PREMIUM" TO "SERVICE FEE."

Since the current insurance premium fee is principally used for expenses other than insurance against defaults, a more appropriate name would be Service Fee.

- CHANGE THE CURRENT REINSURANCE FORMULA TO 100 PERCENT AND REQUIRE THE FEDERAL GOVERNMENT TO PAY WITHOUT EXCEPTION ALL CLAIMS WITHIN 60 DAYS, SUBJECT TO SUBSEQUENT POSTAUDIT VERIFICATION

Despite the current reinsurance mechanism, which in effect provides 100 percent reinsurance, guaranty agencies are still governed by lenders' and bondholders' perceptions. These perceptions require the holding of reserves in order to guarantee against the unlikely event of uncompensated defaults, even though the effective reinsurance rate for almost all agencies has been 100 percent since 1977. Reducing reserve funds without eliminating this risk could result in serious reduction of capital investment in the program.

- THE ADMINISTRATIVE COST ALLOWANCE WILL CONTINUE TO REFLECT A PERCENTAGE OF LOANS GUARANTEED, AS UNDER CURRENT LAW OR AT EACH AGENCY'S OPTION, AT .25 OF 1 PERCENT OF LOANS OUTSTANDING.

A valid argument for the accumulation of large reserves is that both student fees (insurance premiums) and the ACA are based upon the amount guaranteed in any given year. This causes many agencies to argue that they must retain large portions of the fees to service loans in future years. This problem could be largely resolved by changing the ACA formula in the law to reflect a percentage of loans outstanding rather than a percentage of amount guaranteed. This would guard against severe drops in revenue if there is a severe drop in loan volume in any given year. If there are no significant changes in loan volume, the amount which an agency should be eligible to receive in any given year would be approximately the same under either formula.

- ALLOW GUARANTY AGENCIES TO RETAIN ANY OR ALL OF THE COLLECTIONS DUE THE FEDERAL GOVERNMENT ON DEFAULTED LOAN COLLECTIONS AS AN OFFSET AGAINST ADMINISTRATIVE COST ALLOWANCE PAYMENTS MADE OR DUE IN THE PREVIOUS FISCAL YEAR.

The major problems with the current ACA stem from the allowance being available at inopportune times or not being available in predictable amounts, or both. This could be resolved by allowing the agencies to retain any or all of the collections due the federal government on defaulted loan collections as an offset against ACA payments due.

- TO ASSURE THAT GUARANTY AGENCIES MAINTAIN THEIR CURRENT LEVELS OF EFFECTIVENESS IN AVOIDING BORROWER DEFAULTS UNDER THE PROPOSED CONDITION OF 100 PERCENT REINSURANCE, THE SECRETARY OF EDUCATION, IN COOPERATION WITH THE NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAM, SHOULD DEVELOP MINIMUM STANDARDS FOR DUE DILIGENCE.

Such standards should be appropriate to the maintenance and enhancement of agency efforts to keep default claims at a minimum.

- ESTABLISH AN ADEQUATE WORKING CAPITAL FUND FOR THE PAYMENT OF AGENCY DEFAULTS AND ADMINISTRATIVE EXPENSES.

Because the foregoing recommendations will eliminate agencies' risk of default costs and of not having certain and adequate future administrative funds, the amount of an adequate Working Capital Fund for the payment of both defaults and administrative expenses will be established.

The Working Capital Fund formula will determine the amount of the Service Fee an agency may charge, not whether any premium should be charged at all. Reducing, rather than eliminating, the collection of these fees will avoid the confusion resulting from stopping and starting the various systems associated with this function (see Appendix A, "Impact Analysis").

This amount would be based on the following formula: On September 30 of each year, each agency would determine whether its current fund contains an amount in excess of the total of: two times the amount their total administrative budget for the year just ended plus 133% of the amount of default claims paid for the year just ended, divided by 3. Another way to phrase this is: If "A" stands for "administrative budget" and "D" for "default claims" then the formula would be "2A + (4/3 D ÷ 3)."

- CHANGE THE CURRENT FEE OF 1 PERCENT OF THE LOAN VALUE FOR EACH YEAR THAT THE LOAN IS EXTENDED TO A MAXIMUM OF ONE-HALF OF ONE PERCENT OF THE LOAN VALUE FOR THE BORROWERS IN-SCHOOL AND GRACE PERIODS PER LOAN WHEN AN AGENCY'S RESERVES EXCEED THE WORKING CAPITAL FUND.

When the agency's reserves are less than the Working Capital Fund, at that time it may charge the current fee of one percent of the loan value for each year the loan is extended, including the period of repayment. The Commission suggests that the Department of Education review the rate three to five years following the passage of this recommendation.

- A GUARANTY AGENCY MUST RETURN FEDERAL RESERVE AND ADVANCE MONIES TO THE FEDERAL GOVERNMENT WHEN THE AGENCY HAS A SUFFICIENT AMOUNT OF RESERVES, AS DETERMINED BY THE WORKING CAPITAL FUND.

If, in an agency's determination of the adequacy of its working capital fund, the fund contains federal monies advanced under section 422 of the Higher Education Act, the excess reserves partially or wholly attributable to these federal advances should be returned to the federal government to be used for other student aid programs.

- A NEW AGENCY WILL NOT BE SUBJECT TO ANY OF THE ABOVE CHANGES DURING ITS FIRST FIVE YEARS OF OPERATION, UNLESS IT SO CHOOSES.

Any state having a legislative or contractual prohibition involving reduction of its reserve funds, will have a two-year exemption following the passage of any federal legislation which would reduce reserves.

The Commission believes that its recommendation will allow for the long-term viability of the guaranty agencies, and that they are responsive to the individual nature of each agency. The transition period allows for the agencies to be on a more equal footing with each other, for only if the agencies are dealt with equitably can the recipients of their services also be dealt with in an equitable manner. The financial integrity of these agencies has been one of the strengths of the program and has been vital to its success. This financial integrity has been the result of a conscious decision to develop healthy agencies and reflects a sizable investment on the part of the federal government.

The recommendation made in this study preserves the historical health and integrity of the guaranty agencies while saving money for both the federal government and students, and while streamlining the administrative process as well. Also,

the Commission wishes to stress that the parts of this recommendation are interrelated, and must be considered as a package. The parts of the recommendation build on one another, and cannot be adopted separately.

This recommendation is made subject to the caution that it applies to the Guaranteed Student Loan program as the program currently exists. Any major changes in the program may have an impact on the validity of this proposal, and if such changes were to be made, the policy options may have to be re-explored. Such changes include, but are not limited to, changes in the eligibility criteria which markedly alters the composition of loan recipients, significant changes in the terms of repayment, and significant changes in the cost of student loans.

The Commission adopts this study with the understanding that the program modifications presented in this recommendation represent one--but not the only--legitimate approach to resolving some issues addressed by the Commission. An alternative approach, which clearly has merit, would be to modify federal reinsurance in such a manner as to place greater financial responsibility for loan defaults on existing state and private loan guaranty programs. This would result in better utilization of reserve funds of these organizations and would shift some of the cost of defaults from the federal government to the state and private guaranty programs. Reducing the cost to the federal government for defaults would facilitate opportunity for reducing other charges to the student, in order to reduce total borrowing cost to the student. The Commission urges Congress to give full consideration to such an alternative in considering the approach contained in this study.

APPENDIX A

IMPACT ANALYSIS

Two important characteristics, the length of time that the guaranty agency had participated in the GSL program and the size of the agency's loan volume relative to other agencies, were used to classify the states. This led to six categories of states (new/small, new/medium, new/large, old/small, old/medium, and old/large). The Commission selected eleven states for the simulation of the proposed Working Capital Fund formula so that whenever possible there would be two states in each category (in one category, new/large, only one state could be identified). The states and their classification are:

California	(new/large)
Florida	(new/medium)
Michigan	(old/medium)
Missouri	(new/medium)
New Mexico	(new/small)
New York	(old/large)
Ohio	(old/medium)
Pennsylvania	(old/large)
Rhode Island	(old/small)
Utah	(new/small)
Vermont	(old/small)

All of the simulations were based on the data in Appendix B and C.

The formula for determining the agency's adequate reserves is based on two times an agency's total administrative budget for the year ended plus 133 percent of the total amount of default claims paid for the year just ended divided by 3. Another way to phrase this is" If "A" stands for "administrative budget" and "D" for "default claims" then the formula would read "2A + (4/3 D ÷ 3)."

California will not be affected by the proposal until April 1984.

Florida will not be affected by the proposal until September 1983.

Michigan will be affected by the Working Capital Fund as follows:

1981 Operating expenses ($992,415 x 2) =	$1,984,830
1981 Claims ($5,485,201 x 4/3 ÷ 3) =	+2,431,772
Working Capital Fund	$4,416,602

1981 Reserves	$15,862,646
Working Capital Fund	- 4,416,602
	$11,446,044
Total advances	- 4,079,899
Excess	$ 7,366,145

Under this formula Michigan will return all of its advances and will charge a service fee up to a maximum of one-half of one percent of the loan value for the borrowers in-school and grace period.

Missouri will not be affected until October 1984.

New Mexico will not be affected until August 1983.

New York will be affected by the Working Capital Fund as follows:

1981 Operating expenses ($13,300,000 x 2) =	$26,600,000
1981 Claims ($56,343,010 x 4/3 ÷ 3) =	+24,978,734
Working Capital Fund	$51,578,734

1981 Reserves	$111,947,716
Working Capital Fund	- 51,578,734
	$60,368,982
Total advances	-10,300,347
Excess	$50,068,635

Under this formula, New York will return all of its advances and will charge a service fee up to a maximum of one-half of one percent of the loan value for the borrowers in-school and grace period.

Ohio will be affected by the Working Capital Fund as follows:

1981 Operating expenses ($3,254,159 x 2) =	$6,508,318
1981 Claims ($3,387,678 x 4/3 ÷ 3) =	+1,501,871
Working Capital Fund	$8,010,189

1981 Reserves	$24,498,503
Working Capital Fund	- 8,010,189
	$16,488,314
Total advances	- 2,964,256
Excess	$13,524,058

Under this formula, Ohio will return all of its advances and will charge a service fee up to a maximum of one-half of one percent of the loan value for the borrowers in-school and grace period.

Pennsylvania will be affected by the Working Capital Fund as follows:

1981 Operating expenses ($12,769,052 x 2) =	$25,538,104
1981 Claims ($33,722,673 x 4/3 ÷ 3) =	+14,950,385
Working Capital Fund	$40,488,489

1981 Reserves	$57,343,957
Working Capital Fund	-40,488,489
	$16,855,468
Total advances	-15,695,782
Excess	$ 1,159,686

Under this formula, Pennsylvania will return all of its advances and will charge a service fee up to a maximum of one-half of one percent of the loan value for the borrowers in-school and grace period.

Rhode Island will be affected by the Working Capital Fund as follows:

1981 Operating expenses (594,037 x 2) =	$1,188,074
1981 Claims ($1,224,352 x 4/3 ÷ 3) =	+542,796
Working Capital Fund	$1,730,870

1981 Reserves	$6,531,788
Working Capital Fund	-1,730,870
	$4,800,918
Total advances	-978,731
Excess	$3,822,187

Under this formula, Rhode Island will return all of its advances and will charge a service fee up to a maximum of one-half of one percent of the loan value for the borrowers in-school and grace period.

Utah will not be affected until May of 1983.

Vermont will be affected by the Working Capital Fund as follows:

'81 Operating expenses ($749,932 x 2) =	$1,499,864
'81 Claims ($572,046 x 1.33 = ÷ 3) =	+253,607
Working Capital Fund	$1,753,471

1981 Reserves	$1,355,058
Working Capital Fund	-1,753,471
	negative

Under this formula, Vermont will keep advances of $573,544 and will continue to charge its current fee until reserves exceed the Working Capital Fund.

APPENDIX B

RUN DATE: 03/30/82

GUARANTEE AGENCY SOURCES OF FUNDS

		PREMIUMS	ST. APPROP.	ADVANCES	REINSURANCE	ACA	COLLECTIONS	INVESTMENTS	NON-FEDERAL	TOT SOURCES
AK	FY80	13,518	58,838	0	33,817	33,810	6,178	0	0	146,359
	FY81	0	64,226	0	15,888	70,178	4,098	0	40,000	184,390
AL	FY80	0	0	0	0	0	0	0	0	0
	FY81	108,528	0	50,000	0	717	0	15,222	0	174,465
AR	FY80	675,551	134,765	33,282	277,898	37,379	32,425	182,685	74,676	1,448,481
	FY81	586,844	88,833	104,361	513,248	53,288	82,014	278,867	32,228	1,741,679
AZ	FY80	0	0	0	0	0	0	0	0	0
	FY81	13,887	0	50,000	0	0	0	299	0	64,186
CA	FY80	3,851,262	0	1,079,211	11,365	388,982	0	280,011	0	5,718,831
	FY81	10,881,613	0	0	323,425	1,235,866	1,493	809,312	0	13,451,809
CO	FY80	770,223	15,000	50,000	0	155,338	0	0	150,000	1,140,561
	FY81	1,830,853	0	156,120	83,353	497,055	358	208,023	44,379	2,621,141
CT	FY80	0	383,600	0	6,274,956	1,878,481	869,452	783,828	3,201	10,283,619
	FY81	0	328,400	0	11,302,568	1,044,308	1,154,830	832,228	0	14,863,132
DC	FY80	500,876	0	0	0	0	0	1,523	0	502,498
	FY81	1,228,548	0	0	304	437,085	0	98,244	0	1,764,189
DE	FY80	424,088	0	178,470	417,704	78,112	86,718	43,101	0	1,227,189
	FY81	780,041	0	0	327,700	182,888	112,788	154,672	0	1,567,888
FL	FY80	1,022,885	352,878	50,000	22,514	588,338	0	48,232	0	2,290,827
	FY81	1,380,288	821,040	0	82,104	857,517	1,255	150,737	0	3,072,821
GA	FY80	1,288,825	537,033	175,484	2,818,377	318,878	853,180	419,871	25,000	6,513,858
	FY81	1,838,750	558,888	0	3,128,080	505,854	1,125,827	788,748	37,368	8,083,415
HI	FY80	248,745	0	50,000	0	1,783	0	0	0	301,538
	FY81	508,878	0	0	0	132,888	0	28,868	0	868,640
IA	FY80	1,848,885	0	230,208	28,138	338,110	0	248,517	420,000	3,108,840
	FY81	2,138,455	0	0	132,858	384,418	1,240	878,421	420,000	3,737,493
ID	FY80	123,840	0	50,000	3,807	38,205	0	7,151	83,228	308,131
	FY81	314,780	0	50,000	40,385	81,838	1,241	17,825	82,388	588,655
IL	FY80	0	0	0	8,080,147	831,304	2,775,085	0	0	12,688,536
	FY81	1,560,808	0	0	12,314,378	2,175,511	3,821,250	438,718	0	20,110,484

APPENDIX B (continued)

		PREMIUMS	ST. APPROP.	ADVANCES	REINSURANCE	ACA	COLLECTIONS	INVESTMENTS	NON-FEDERAL	TOT SOURCES
IN	FY80	1,211,348	0	374,810	11,803	475,721	4,734	109,202	0	2,187,418
	FY81	0	0	0	0	0	0	0	0	0
KS	FY80	1,378,455	0	50,000	428,882	184,107	1,217	201,413	0	2,241,854
	FY81	2,828,533	0	342,752	3,203,137	880,251	71,248	484,220	0	7,698,142
KY	FY80	821,424	0	50,000	8,257	111,284	0	14,250	0	1,005,225
	FY81	1,851,484	0	0	87,873	388,183	220	18,087	0	2,366,847
LA	FY80	0	0	0	1,230,848	104,836	312,803	212,888	0	1,861,353
	FY81	0	170,000	203,837	781,875	131,328	415,834	219,888	0	1,832,871
MA	FY80	4,298,243	0	0	4,853,661	754,130	1,308,083	1,244,187	5,100	12,484,384
	FY81	6,732,891	0	0	8,223,342	1,678,875	1,650,578	2,587,122	3,500	21,876,408
MD	FY80	2,025,787	0	113,855	884,101	843,385	407,858	475,331	0	4,860,407
	FY81	1,547,801	8,485,810	0	2,458,847	778,433	387,468	1,122,327	0	14,798,686
ME	FY80	854,874	0	64,534	888,120	251,524	254,883	78,372	0	2,304,107
	FY81	805,820	0	0	888,043	220,087	244,188	229,004	0	2,487,143
MI	FY80	1,480,188	0	888,858	8,544,828	711,377	838,888	802,851	0	11,426,210
	FY81	2,347,109	0	0	4,837,500	883,830	1,074,551	1,888,382	0	10,751,352
MN	FY80	3,880,847	0	0	1,438,404	508,257	18,551	581,128	0	8,223,985
	FY81	8,035,708	0	821,282	8,328,582	1,805,484	332,458	1,484,873	0	18,718,387
MO	FY80	510,887	0	338,755	484,885	71,408	83,488	84,531	0	1,541,755
	FY81	2,350,188	0	0	48,150	482,318	54,813	347,873	8,448	3,288,588
MT	FY80	87,058	0	0	0	0	0	0	0	87,058
	FY81	283,834	0	50,000	5,284	120,560	0	8,240	0	465,828
NC	FY80	358,185	223,884	188,322	880,881	0	248,000	388,354	0	2,278,718
	FY81	712,588	318,121	0	825,510	88,527	271,228	710,535	0	3,004,488
NE	FY80	1,043,377	0	0	0	0	0	1,018	0	1,044,388
	FY81	2,135,884	0	0	45,308	888,033	0	228,151	0	3,108,178
NH	FY80	508,288	0	0	244,885	82,351	78,181	84,413	2,055	880,834
	FY81	480,888	0	77,513	282,202	231,488	75,718	238,538	840	1,368,388

APPENDIX B (continued)

		PREMIUMS	ST. APPROP.	ADVANCES	REINSURANCE	ACA	COLLECTIONS	INVESTMENTS	NON-FEDERAL	TOT SOURCES
NJ	FY80	1,188,828	0	0	14,487,173	868,582	2,012,557	1,413,834	242,724	20,001,698
	FY81	3,812,808	0	0	18,588,748	2,212,788	2,817,444	1,840,341	167,681	27,237,821
NM	FY80	181,748	0	50,000	10,017	0	0	35,004	0	276,767
	FY81	380,835	0	50,000	114,218	0	0	76,885	0	622,038
NV	FY80	133,588	0	0	327,385	0	84,860	0	0	555,831
	FY81	312,723	0	0	182,883	0	103,522	0	0	599,128
NY	FY80	7,428,525	835,000	0	42,728,178	4,777,313	8,848,088	3,885,842	0	88,411,856
	FY81	8,837,889	0	0	71,888,875	8,487,033	12,808,374	6,837,522	0	108,571,293
OH	FY80	5,253,875	0	0	2,073,783	1,588,873	522,885	1,485,788	253,872	11,158,778
	FY81	2,548,487	0	0	3,080,883	1,845,511	871,085	2,885,788	348,782	11,488,307
OK	FY80	371,124	0	0	813,443	0	158,285	387,534	0	1,541,388
	FY81	582,803	200,000	182,175	594,078	25,233	185,818	130,501	0	1,910,507
OR	FY80	724,375	0	0	944,218	88,315	485,781	275,088	0	2,535,733
	FY81	1,380,887	0	17,583	885,208	127,885	478,883	485,308	0	3,343,440
PA	FY80	4,841,328	2,548,811	0	27,811,378	3,314,542	5,118,454	4,002,511	0	47,835,023
	FY81	8,475,345	3,237,873	2,470,274	28,411,808	4,818,888	8,372,888	8,210,248	0	58,788,221
RI	FY80	848,285	0	0	883,581	158,702	158,884	487,723	0	2,728,185
	FY81	818,538	0	0	1,248,745	281,015	232,385	529,885	0	3,122,348
SC	FY80	145,858	0	50,000	858	0	0	74,485	0	271,312
	FY81	148,400	0	0	20,882	2,815	2,788	78,242	0	250,727
SD	FY80	888,541	0	0	10,851	218,888	0	53,308	0	1,148,687
	FY81	1,288,788	0	50,000	217,533	527,883	3,008	134,050	0	2,228,282
TN	FY80	1,231	0	444,387	1,113,752	72,480	185,133	228,140	2,528	2,058,882
	FY81	780,857	41,725	0	1,235,337	78,281	188,723	535,243	3,157	2,844,433
TX	FY80	0	0	0	0	0	0	0	0	0
	FY81	576,564	1,240,888	50,000	0	85,850	0	134,828	0	2,088,311
UF	FY80	0	0	0	1,738,158	838,288	1,001,028	387,858	0	3,771,442
	FY81	8,715,210	2,003,534	0	1,828,708	1,485,780	883,787	258,883	0	13,173,702

APPENDIX B (continued)

		PREMIUMS	ST. APPROP.	ADVANCES	REINSURANCE	ACA	COLLECTIONS	INVESTMENTS	NON-FEDERAL	TOT SOURCES
UT	FY80	848,848	0	50,000	7,198	282,105	485	105,500	0	1,083,847
	FY81	881,815	0	0	0	210,825	50	212,500	0	1,285,380
VA	FY80	3,240,038	74,000	884,781	1,841,882	277,834	241,008	744,833	300,457	7,514,821
	FY81	3,148,414	80,140	0	1,385,875	348,488	541,402	1,327,858	0	8,850,058
VI	FY80	35,408	0	0	0	3,873	0	14,811	0	53,882
	FY81	48,083	0	50,000	0	11,481	0	0	0	110,524
VT	FY80	185,087	215,428	138,721	482,202	124,058	87,108	48,530	0	1,272,135
	FY81	455,372	0	0	813,881	178,818	117,753	123,812	0	1,487,217
WA	FY80	833,383	0	150,000	0	188,801	0	23,373	13,000	1,188,357
	FY81	1,081,268	0	81,187	85,184	410,777	1,381	183,214	0	1,852,888
WI	FY80	1,376	0	0	3,743,230	1,112,783	513,528	758,875	0	8,130,773
	FY81	2,007,873	0	1,008,453	7,521,333	1,280,573	718,808	893,028	0	13,508,168
WV	FY80	248,418	0	0	0	0	0	0	0	248,418
	FY81	843,855	0	0	11,148	183,808	582	46,437	0	1,085,841
WY	FY80	72,138	0	0	0	0	0	85	0	72,203
	FY81	201,747	0	0	4,080	70,382	125	10,412	0	288,738
TOT	FY80	58,227,780	5,357,457	5,821,880	135,780,783	22,058,480	28,008,807	20,728,303	1,575,842	278,837,842
	FY81	85,554,174	17,680,158	5,875,557	184,230,804	37,781,032	38,820,005	38,828,047	1,186,878	428,117,753

SOURCE: Reprinted from U.S. Department of Education, "Guarantee Agency Sources of Funds," GSL Branch, unpublished data, March 30, 1982.

APPENDIX C

RUN DATE: 03/30/82

GUARANTEE AGENCY USES OF FUNDS

		CLAIMS	OP EXPENSES	$ TO ED	OTHER	TOT USES	TOT SOURCES	SOURCES-USES	CUM FUNDS AVAIL
AK	FY80	31,578	87,718	4,443	0	103,738	148,359	42,621	132,558
	FY81	25,880	84,228	4,174	83,243	157,333	194,390	37,057	178,743
AL	FY80	0	0	0	0	0	0	0	0
	FY81	0	203,808	0	0	-203,808	174,465	28,443-	254,357
AR	FY80	458,401	188,575	35,818	0	678,785	1,448,481	769,696	3,484,218
	FY81	321,837	302,274	52,078	0	676,180	1,741,678	1,065,498	4,485,043
AZ	FY80	0	0	0	0	0	0	0	0
	FY81	0	127,038	0	0	127,038	84,188	82,850-	438,442
CA	FY80	30,857	1,135,082	0	0	1,165,848	5,718,831	4,552,982	6,318,082
	FY81	827,653	3,488,038	0	1,413,280	5,808,852	13,451,808	7,844,857	22,022,182
CO	FY80	1,516	322,853	0	45,000	368,368	1,140,581	771,182	1,051,445
	FY81	117,784	1,003,552	0	105,000	1,226,338	2,821,141	1,394,805	2,823,843
CT	FY80	8,028,585	1,465,237	1,372,488	44,382	8,808,682	10,283,818	1,374,837	8,373,081
	FY81	11,778,403	2,387,830	628,800	984,171	15,787,004	14,683,132	1,103,872-	8,452,617
DC	FY80	0	143,888	0	0	143,888	502,488	358,611	358,611
	FY81	2,840	188,288	0	0	182,128	1,784,188	1,572,060	2,101,868
DE	FY80	372,510	182,807	22,874	0	538,281	1,227,188	688,888	2,301,738
	FY81	482,114	242,138	16,748	0	740,888	1,587,888	826,880	3,325,785
FL	FY80	48,818	552,878	0	588,338	1,188,232	2,280,827	1,084,695	1,442,881
	FY81	182,658	821,040	837	657,517	1,841,852	3,072,921	1,431,068	3,115,175
GA	FY80	2,382,825	841,278	571,871	492,010	4,287,884	8,513,658	2,225,674	6,413,887
	FY81	2,857,331	1,145,384	883,901	559,886	5,358,482	8,083,415	2,728,833	9,288,880
HI	FY80	0	85,418	0	0	85,418	301,538	218,120	238,753
	FY81	8,003	188,758	0	0	207,753	888,840	481,887	1,214,480
IA	FY80	33,527	325,785	0	0	358,312	3,108,840	2,748,828	4,378,220
	FY81	310,872	581,815	436	751,487	1,824,728	3,737,493	2,112,773	7,705,748
ID	FY80	11,288	154,745	0	78,883	245,728	308,131	80,405	134,038
	FY81	42,458	238,888	0	85,808	375,028	588,855	223,827	358,482
IL	FY80	8,878,821	2,258,004	2,385,258	0	14,503,883	12,888,538	1,817,347-	8,008,438
	FY81	11,148,878	3,077,825	2,218,331	0	18,443,835	20,110,484	3,888,528	7,238,588

APPENDIX C (continued)

		CLAIMS	OP EXPENSES	$ TO ED	OTHER	TOT USES	TOT SOURCES	SOURCES-USES	CUM FUNDS AVAIL
IN	FY80	82,488	581,081	0	0	883,578	2,187,418	1,503,838	2,813,233
	FY81	0	0	0	0	0	0	0	0
KS	FY80	911,781	563,073	0	0	1,474,854	2,241,854	767,000	3,287,870
	FY81	3,887,198	1,090,888	28,501	0	4,984,388	7,698,142	2,713,744	7,271,885
KY	FY80	21,873	315,328	0	0	337,302	1,005,225	667,823	2,458,386
	FY81	128,845	488,888	0	0	818,311	2,388,847	1,748,838	4,280,327
LA	FY80	1,332,889	80,354	152,370	0	1,575,613	1,881,353	285,740	1,801,011
	FY81	1,188,482	198,508	208,181	0	1,804,151	1,832,871	328,820	1,884,735
MA	FY80	5,187,188	2,888,804	787,858	0	8,853,848	12,484,384	3,510,438	18,884,450
	FY81	7,715,808	4,258,254	963,777	0	12,938,837	21,878,408	8,837,772	25,152,832
MD	FY80	1,074,200	740,724	269,889	863,120	3,047,833	4,880,407	1,812,474	2,403,285
	FY81	2,328,718	1,033,872	321,802	1,348,820	5,031,212	14,788,888	8,787,474	14,088,484
ME	FY80	733,078	508,268	88,271	0	1,308,818	2,304,107	884,491	4,587,088
	FY81	871,833	855,800	113,227	0	1,741,060	2,..J7,143	758,083	8,385,831
MI	FY80	5,045,837	1,145,708	721,854	0	8,913,800	11,428,210	4,512,810	11,008,588
	FY81	5,485,201	892,415	688,002	0	7,173,818	10,751,352	3,577,734	15,862,848
MN	FY80	2,754,893	1,821,710	0	0	4,378,403	8,223,885	1,847,582	8,384,228
	FY81	5,881,748	2,534,828	172,888	0	8,588,438	18,718,397	8,148,858	17,388,472
MO	FY80	34,182	288,157	22,888	0	343,047	1,541,755	1,188,708	2,128,221
	FY81	118,048	788,218	28,508	0	831,788	3,288,588	2,387,832	5,805,137
MT	FY80	0	34,288	0	0	34,288	87,058	82,757	82,757
	FY81	12,507	135,328	0	0	147,838	485,828	318,082	814,744
NC	FY80	888,788	223,884	147,333	8,850	1,248,833	2,278,718	1,028,883	5,783,830
	FY81	847,802	318,121	171,718	3,408	1,438,850	3,004,488	1,585,838	7,321,883
NE	FY80	0	241,084	0	0	241,084	1,044,385	803,301	803,301
	FY81	101,375	748,848	0	0	851,324	3,108,178	2,254,852	3,488,303
NH	FY80	228,527	247,285	43,431	0	517,253	880,834	443,881	1,530,380
	FY81	270,535	588,388	42,381	0	812,302	1,388,388	458,087	1,883,283

APPENDIX C (continued)

		CLAIMS	OP EXPENSES	$ TO ED	OTHER	TOT USES	TOT SOURCES	SOURCES-USES	CUM FUNDS AVAIL
NJ	FY80	14,883,000	2,378,728	852,754	28,800	18,053,282	20,001,888	1,848,418	17,481,008
	FY81	18,513,775	2,653,833	1,875,498	4,888,893	25,843,100	27,237,821	1,384,821	18,810,832
NM	FY80	21,177	18,000	0	0	37,177	278,787	238,590	457,848
	FY81	103,058	35,377	0	0	138,435	822,038	483,803	841,552
NV	FY80	335,054	88,880	38,775	0	483,708	555,831	82,122	788,847
	FY81	227,341	72,118	24,381	0	323,821	598,128	275,307	1,185,182
NY	FY80	48,768,505	10,829,868	8,863,835	283,150	68,855,458	68,411,858	443,503-	88,255,881
	FY81	58,383,010	13,300,000	15,882,215	0	85,575,225	108,571,283	23,898,068	111,847,718
OH	FY80	2,180,288	2,578,884	285,088	0	5,044,388	11,158,778	6,114,407	18,417,340
	FY81	3,387,678	3,254,158	518,525	0	7,158,362	11,498,307	4,338,845	24,498,503
OK	FY80	583,478	181,858	128,788	0	812,135	1,541,388	828,231	3,442,888
	FY81	767,481	300,425	108,885	0	1,178,801	1,810,507	733,808	4,472,753
OR	FY80	781,183	380,188	530,124	0	1,871,485	2,535,733	864,238	3,810,828
	FY81	881,361	431,740	320,464	0	1,833,585	3,343,440	1,708,875	5,748,252
PA	FY80	27,812,082	4,241,358	3,384,740	8,713,152	42,131,343	47,635,023	5,503,880	47,723,898
	FY81	33,722,873	12,768,052	3,137,788	5,351,808	54,881,120	58,788,221	3,817,101	57,343,857
RI	FY80	821,503	438,821	85,828	0	1,447,350	2,728,185	1,278,815	5,631,012
	FY81	1,224,352	584,037	131,585	185,404	2,145,388	3,122,348	878,881	8,531,788
SC	FY80	8,070	10,188	0	42,078	58,334	271,312	212,878	828,451
	FY81	28,184	24,483	1,488	0	52,183	250,727	188,544	1,102,818
SD	FY80	18,707	387,217	0	82,753	478,877	1,148,887	873,020	1,155,037
	FY81	267,828	482,425	1,825	137,031	888,707	2,228,282	1,340,555	2,453,748
TN	FY80	1,077,742	270,880	127,408	0	1,478,128	2,058,882	582,534	2,883,853
	FY81	1,047,438	435,882	128,418	0	1,811,718	2,844,433	1,232,715	4,035,823
TX	FY80	0	0	0	0	0	0	0	0
	FY81	2,000	1,188,884	0	0	1,171,884	2,088,311	888,347	2,082,347
UF	FY80	1,248,881	1,432,448	181,823	0	2,843,753	3,771,442	827,888	N/A
	FY81	1,824,707	1,858,578	144,373	138,325	3,783,884	13,173,702	8,488,718	7,178,588

APPENDIX C (continued)

		CLAIMS	OP EXPENSES	$ TO ED	OTHER	TOT USES	TOT SOURCES	SOURCES-USES	CUM FUNDS AVAIL
UT	FY80	5,183	301,855	181	0	308,879	1,093,847	786,988	1,385,084
	FY81	0	481,035	0	0	481,035	1,285,390	824,355	2,325,905
VA	FY80	1,119,239	431,320	78,992	0	1,630,551	7,514,621	5,884,070	14,584,855
	FY81	1,859,478	783,253	204,812	0	2,847,844	6,850,058	4,002,414	18,822,105
VI	FY80	0	8,230	0	0	8,230	53,992	45,782	214,445
	FY81	16,845	16,176	0	0	33,021	110,524	77,503	239,182
VT	FY80	500,212	391,587	58,016	0	847,785	1,272,135	324,340	1,120,878
	FY81	572,048	749,832	78,841	30,747	1,428,888	1,487,217	57,551	1,355,058
WA	FY80	11,992	333,585	0	0	345,587	1,188,357	842,770	873,802
	FY81	128,201	1,100,882	718	0	1,227,781	1,852,888	825,208	1,484,582
WI	FY80	5,388,108	1,535,327	277,720	0	7,211,155	8,130,773	1,080,382-	10,108,828
	FY81	8,831,680	1,547,892	445,527	38,022	10,884,121	13,508,188	2,844,045	14,288,758
WV	FY80	0	58,883	0	0	58,883	248,418	187,425	187,425
	FY81	13,174	188,274	0	0	212,448	1,085,841	853,483	1,288,330
WY	FY80	0	80,811	0	0	80,811	72,203	11,282	12,810
	FY81	5,858	172,104	88	0	178,150	288,738	108,588	183,887
TOT	FY80	144,028,537	43,888,488	21,818,704	8,388,328	218,707,053	278,837,842	57,830,888	325,471,482
	FY81	184,884,088	70,283,782	28,488,408	18,552,838	301,008,888	428,117,753	125,108,855	470,381,748

SOURCE: Reprinted from U.S. Department of Education, "Guarantee Agency Uses of Funds," GSL Branch, unpublished data, March 30, 1982.

APPENDIX D

STUDENT INSURANCE PREMIUM -- GUARANTEE AGENCY PROGRAM

RUN DATE: 12/16/81

STATE	RATE	PERIOD COVERED
ALABAMA	1 %	IN-SCHOOL + 6 MONTHS
ALASKA	NONE	NONE
AMERICAN SAMOA	FISLP ONLY	FISLP ONLY
ARIZONA	1 %	IN-SCHOOL + GRACE
ARKANSAS	1 %	IN-SCHOOL + GRACE
CALIFORNIA	1 %	IN-SCHOOL + 12 MONTHS
COLORADO	1 %	IN-SCHOOL + GRACE
CONNECTICUT	NONE	NONE
DELAWARE	1 %	IN-SCHOOL + GRACE
D. C.	1 %	IN-SCHOOL + 12 MONTHS
FLORIDA	1/2 %	IN-SCHOOL + GRACE
GEORGIA	1 %	IN-SCHOOL + GRACE
GUAM	FISLP ONLY	FISLP ONLY
HAWAII	1 %	IN-SCHOOL + GRACE
IDAHO	1 %	IN-SCHOOL + GRACE
ILLINOIS	1 %	IN-SCHOOL + GRACE
INDIANA	1/2 %	IN-SCHOOL + GRACE
IOWA	1 %	IN-SCHOOL + 10 MONTHS
KANSAS	1 %	IN-SCHOOL + 12 MONTHS
KENTUCKY	1 %	IN-SCHOOL + GRACE
LOUISIANA	NONE	NONE
MAINE	1 %	IN-SCHOOL + GRACE
MARYLAND	1 %	IN-SCHOOL + GRACE
MASSACHUSETTS	3/4/%	IN-SCHOOL + GRACE
MICHIGAN	1 %	IN-SCHOOL + GRACE
MINNESOTA	1 %	IN-SCHOOL + 12 MONTHS
MISSISSIPPI	FISLP ONLY	FISLP ONLY
MISSOURI	1 %	IN-SCHOOL + GRACE
MONTANA	1 %	IN-SCHOOL + GRACE
NEBRASKA	1 %	IN-SCHOOL + 12 MONTHS
NEVADA	1 %	IN-SCHOOL + GRACE
NEW HAMPSHIRE	1 %	IN-SCHOOL + GRACE
NEW JERSEY	1 %	ONE-TIME FEE AT DISBURSEMENT
NEW MEXICO	1 %	IN-SCHOOL + GRACE
NEW YORK	1/2 %	IN-SCHOOL + 6 MONTHS
NORTH CAROLINA	1/2 %	LIFE OF LOAN
NORTH DAKOTA	FISLP ONLY	FISLP ONLY
OHIO	1/2 %	IN-SCHOOL + GRACE
OKLAHOMA	1 %	IN-SCHOOL + GRACE
OREGON	1 %	IN-SCHOOL + GRACE
PENNSYLVANIA	1/2 %	IN-SCHOOL + GRACE
PUERTO RICO	1 %	IN-SCHOOL + 12 MONTHS
RHODE ISLAND	3/4/%	IN-SCHOOL + GRACE
SOUTH CAROLINA	3/4/%	IN-SCHOOL + GRACE
SOUTH DAKOTA	1 %	IN-SCHOOL + 12 MONTHS
TENNESSEE	1 %	IN-SCHOOL + GRACE
TEXAS	1 %	IN-SCHOOL + GRACE
USAF	1 %	IN-SCHOOL + GRACE
UTAH	1 %	IN-SCHOOL + GRACE
VERMONT	1 %	IN-SCHOOL + GRACE
VIRGIN ISLANDS	1 %	IN-SCHOOL + GRACE
VIRGINIA	1 %	IN-SCHOOL + 12 MONTHS
WASHINGTON	1 %	IN-SCHOOL + GRACE
WEST VIRGINIA	1 %	IN-SCHOOL + 12 MONTHS
WISCONSIN	1 %	ONE-TIME FEE AT DISBURSEMENT
WYOMING	1 %	IN-SCHOOL + 12 MONTHS

TOTALS BY RATE

3	NONE
40	1 %
4	1/2 %
3	3/4 %
4	FISLP ONLY
54	

TOTALS BY PERIOD COVERED

3	NONE
2	IN-SCHOOL + 6 MONTHS
33	IN-SCHOOL + GRACE
10	IN-SCHOOL + 12 MONTHS
1	IN-SCHOOL + 10 MONTHS
2	ONE-TIME FEE AT DISBURSEMENT
1	LIFE OF LOAN
4	FISLP ONLY
54	

SOURCE: Reprinted from U.S. Department of Education, "Student Insurance Premium--Guarantee Agency Program," GSL Branch, unpublished data, December 16, 1981.